

AASB Standard

AASB 2019-X
[Month] 2019

Amendments to Australian Illustrative Examples for Not-for-Profit Entities accompanying AASB 15



Australian Government

**Australian Accounting
Standards Board**

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This Standard is available on the AASB website: www.aasb.gov.au.

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**FATAL-FLAW REVIEW VERSION
COMMENTS DUE FRIDAY 8 NOVEMBER 2019**

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ACCOUNTING STANDARD

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BASIS FOR CONCLUSIONS

Australian Accounting Standard AASB 2019-X *Amendments to Australian Illustrative Examples for Not-for-Profit Entities accompanying AASB 15* is set out in paragraphs 1 – 6. All the paragraphs have equal authority.

Preface

Standards amended by AASB 2019-X

This Standard makes amendments to the *Australian Illustrative Examples for Not-for-Profit Entities* accompanying AASB 15 *Revenue from Contracts with Customers* (December 2014).

Main features of this Standard

Main requirements

This Standard makes amendments to Illustrative Examples 4A and 4B accompanying AASB 15 to clarify the analysis of how paragraph 35(a) of AASB 15 applies. The amendments do not change the requirements of AASB 15 or the conclusions of the Illustrative Examples.

Paragraph 35(a) addresses whether the customer simultaneously receives and consumes the benefits provided by an entity's performance as the entity performs, as one basis for the entity transferring control of a good or service over time, and therefore satisfying a performance obligation and recognising revenue over time.

Application date

This Standard applies to annual periods ending on or after 31 December 2019, with earlier application permitted.

Accounting Standard AASB 2019-X

The Australian Accounting Standards Board makes Accounting Standard AASB 2019-X *Amendments to Australian Illustrative Examples for Not-for-Profit Entities accompanying AASB 15* under section 334 of the *Corporations Act 2001*.

Dated ... [date]

Kris Peach
Chair – AASB

Accounting Standard AASB 2019-X *Amendments to Australian Illustrative Examples for Not-for-Profit Entities accompanying AASB 15*

Objective

- 1 This Standard amends *Australian Illustrative Examples for Not-for-Profit Entities* accompanying AASB 15 *Revenue from Contracts with Customers* (December 2014) to clarify the analysis of how AASB 15 applies in several examples. The amendments do not change the requirements of AASB 15 or the conclusions of the examples.

Application

- 2 The amendments set out in this Standard apply to entities and financial statements in accordance with the application of AASB 15 set out in AASB 1057 *Application of Australian Accounting Standards*.
- 3 This Standard applies to annual periods ending on or after 31 December 2019. Earlier application of this Standard is permitted.
- 4 This Standard uses underlining, striking out and other typographical material to identify some of the amendments to a Standard, in order to make the amendments more understandable. However, the amendments made by this Standard do not include that underlining, striking out or other typographical material. Amended paragraphs are shown with deleted text struck through and new text underlined. Ellipses (...) are used to help provide the context within which amendments are made and also to indicate text that is not amended.

Amendments to Australian Illustrative Examples for not-for-profit entities

- 5 Illustrative Example 4 in the Australian examples accompanying AASB 15 is amended as follows:

...

Example 4—Research activities—Transfer of research findings

Example 4A – Enforceable agreement, sufficiently specific performance obligation, research data only

Research Institute C receives a cash grant from a donor, Marine Sanctuaries Trust M, of \$5.3 million to undertake research that aims to track whale migration along the eastern coast of Australia.

The terms of the grant are:

- a period of three years;
- the return of funds that are either unspent or not spent in accordance with the agreement;
- publication of research data on a public website as it is obtained, so that any researchers can use the data;
- the IP arising from the research is neither transferred to nor licensed to donor M;
- annual progress reports and a final report are required;
- Institute C may publish research results in conference presentations and/or scholarly journals, retaining the copyright to such results; and

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- the institute has an explicit right to payment for the research services completed to date if the agreement is terminated.

Institute C concludes that the arrangement is a contract with a customer as defined in AASB 15 on the basis that:

- Institute C's promise of specified research and contemporaneous publication of the research data is enforceable as the grant is refundable if the research is not undertaken;
- the institute identifies its promise to undertake the research and contemporaneously publish the research data is sufficiently specific and represents a single performance obligation; and
- the undertaking of the research and contemporaneous publication of the data will represent services provided to the donor, as it is a beneficiary of the research even though the research data is publicly available.

Accounting treatment

In accordance with AASB 15, Institute C allocates the cash grant to its identified performance obligation and recognises the financial asset (cash) and a contract liability of \$5.3 million on initial recognition.

Institute C concludes that the performance obligation is satisfied over time as the donor simultaneously receives and consumes the benefits of the research services as they are performed (paragraph 35(a)). This is on the grounds that ~~another entity would not need to substantially re-perform the research completed to date by the institute if that other entity were to fulfil the remaining performance obligation to the donor (paragraph B4) as the research data is made public as it is collected, and thus available to any replacement researchers.~~

Accordingly, the institute recognises revenue over time as it satisfies the performance obligation. The institute elects to measure its progress towards complete satisfaction of the performance obligation on the basis of research data published.

Example 4B – Enforceable agreement, sufficiently specific performance obligation, research data and assessment only

In this example, the facts of Example 4A apply, except that:

- the grant requires Research Institute C to prepare interim and final reports analysing the tracking data obtained;
- publication of the research data is required at the conclusion of the research, rather than contemporaneously;
- the IP arising from the research is neither transferred to nor licensed to donor M; and
- the institute is restricted from readily directing the tracking information and analysis for another use of the institute.

Institute C concludes that the arrangement is a contract with a customer as defined in AASB 15, on the same basis as set out in Example 4A.

Accounting treatment

In accordance with AASB 15, Institute C allocates the cash grant to its identified performance obligation and recognises the financial asset (cash) and a contract liability of \$5.3 million on initial recognition.

Institute C concludes that the donor does not simultaneously receive and consume the benefits of the research services as they are performed, since the research data is not published until the conclusion of the research. ~~This is on the grounds that another entity would need to substantially re-perform the research completed to date by the institute if that other entity were to fulfil the remaining performance obligation to the donor.~~ Furthermore, the performance of the research activities results in the accumulation of knowledge, which is an asset (whether recognisable or unrecognisable) developed by the researcher but not immediately consumed. Therefore, paragraph 35(a) is not satisfied.

As the donor does not obtain the IP under the agreement, Institute C determines that its research does not create or enhance an asset that donor M controls as the asset is created or enhanced. Therefore, paragraph 35(b) is not satisfied.

Institute C notes that its research performance does not create an asset with an alternative use to the entity due to the restrictions in the agreement regarding directing the research to another use. Institute C also notes that it has an explicit, enforceable right to payment for performance completed. Therefore, paragraph 35(c) is satisfied.

Accordingly, Institute C concludes that the performance obligation is satisfied over time and recognises revenue over time as it satisfies the performance obligation. The institute elects to measure progress on the

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basis of the amount it would be entitled to receive for its performance to date, which corresponds with the value of the performance to the customer.

...

Commencement of the legislative instrument

6 For legal purposes, this legislative instrument commences on 30 December 2019.

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, AASB 2019-X.

Introduction

BC1 This Basis for Conclusions summarises the Australian Accounting Standards Board’s considerations in reaching the conclusions in this Standard. It sets out the reasons why the Board developed the Standard, the approach taken to developing the Standard and the key decisions made. In making decisions, individual Board members gave greater weight to some factors than to others.

Reasons for issuing this Standard

BC2 The Board became aware of different interpretations of how paragraph 35(a) of AASB 15 *Revenue from Contracts with Customers* applies in the case of research grants and decided that the analysis in the Illustrative Examples accompanying the Standard did not fully explain how to apply the paragraph. Paragraph 35(a) addresses whether the customer simultaneously receives and consumes the benefits provided by an entity’s performance as the entity performs, as one basis for the entity transferring control of a good or service over time, and therefore satisfying a performance obligation and recognising revenue over time.

BC3 The Board determined that paragraph 35(a) leads to three possible outcomes:

- if it is clear the customer (the donor) simultaneously receives and consumes the research service, paragraph 35(a) is satisfied;
- if it is clear the customer (donor) does not simultaneously receive and consume the research service, paragraph 35(a) is not satisfied; and
- if it is uncertain whether the customer (donor) simultaneously receives and consumes the research service, it is necessary to refer to paragraph B4 to determine whether paragraph 35(a) is satisfied. Paragraph B4 states that, in those circumstances, a performance obligation is satisfied over time if an entity determines that another entity would not need to substantially re-perform the work that the entity has completed to date if that other entity were to fulfil the remaining performance obligation to the customer.

BC4 Whilst the original conclusions in the Illustrative Examples are appropriate, applying the original analysis to a different fact pattern could lead to an inappropriate application of paragraph 35(a). Accordingly, the Board made changes to Illustrative Examples 4A and 4B by removing the references to re-performance and paragraph B4 in assessing the application of paragraph 35(a), and adding an explanation in Illustrative Example 4B on why in this example it is clear that there is no simultaneous receipt and consumption by the donor of the benefits of the institute’s performance of the research activities.